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# **HONEYVILLE CITY**

## **Audited Financial Statements**

**June 30, 2005**

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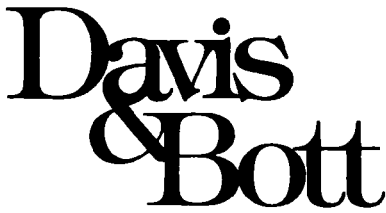
**Davis  
& Bott**

Certified Public Accountants, L.C.  
547 South Main  
P.O. Box 369  
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435-723-5224

**Honeyville City**  
**June 30, 2005**

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## INDEPENDENT AUDITORS' REPORT

Certified Public Accountants, L.C.

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P.O. Box 369  
Brigham City, Utah 84302  
435-723-5224

216 East Main  
Tremonton, Utah 84337  
435-257-5486

The Honorable Mayor and City Council  
Honeyville City  
Honeyville, UT 84314

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of Honeyville, Utah, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of Honeyville, Utah. Our responsibility is to express opinions on these financial statements based on our audit.

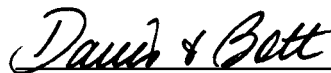
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of Honeyville, Utah, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

**Independent Auditors' Report**  
**Honeyville City**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2005, on our consideration of Honeyville, Utah's, internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 10 and on page 29, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Davis & Bott

Certified Public Accountants, L.C.

October 13, 2005

**Honeyville City**  
**Management's Discussion and Analysis (Unaudited)**  
**For the Year Ended June 30, 2005**

As management of Honeyville, Utah, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2005. The City's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section.

**FINANCIAL HIGHLIGHTS**

- A. The assets of the City exceeded its liabilities at June 30, 2005, by \$1,519,583. Of this amount, unrestricted net assets of \$607,050 may be used to meet the City's ongoing obligations to citizens and creditors.
- B. The total net assets increased by \$79,361 over the prior year. The increase resulted primarily from the capitalization of the new fire truck that was purchased towards the beginning of the fiscal year, less the increase in current year depreciation expense on fixed assets. Additionally, B&C road revenue decreased by approximately \$20,000 compared to the prior year.
- C. As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$606,067, a decrease of \$61,572 in comparison with the prior year. Of this amount, \$538,851 is unreserved and available for spending. The remaining \$67,216 has been reserved due to legal restrictions involving parties outside the financial reporting entity.
- D. At the end of the current fiscal year, the unreserved fund balance for the general fund was \$158,669, or 79 percent of total general fund expenditures.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

**Honeyville City**  
**Management's Discussion and Analysis (Unaudited) (Continued)**  
**For the Year Ended June 30, 2005**

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, highways and public improvements, and parks and recreation. The business-type activities of the City consist of culinary water.

**Fund Financial Statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental and proprietary funds.

**Governmental Funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near-term financing decisions.

*See Independent Auditors' Report*

**Honeyville City**  
**Management's Discussion and Analysis (Unaudited) (Continued)**  
**For the Year Ended June 30, 2005**

Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between the two.

The City maintains two individual governmental funds. Information is presented separately in the governmental fund balance sheet and governmental fund statement of revenues, expenditures and changes in fund balances for the general fund and capital projects fund. Both are considered major funds.

The City adopts a one-year budget for its governmental funds. Budgetary comparison statements have been provided.

**Proprietary Funds.** The City maintains only one type of proprietary fund; namely, an enterprise fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Information is presented in the proprietary statement of net assets and the proprietary statement of revenues, expenses and changes in fund net assets for the water utility fund.

**Notes to the financial statements.** The notes provide additional information essential to a full understanding of the data provided in the government-wide and fund financial statements.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. At June 30, 2005, the City's assets exceeded liabilities by \$1,519,583. By far the largest portion of the City's net assets (55 percent) reflects its investment in capital assets. Capital assets are used to provide services to citizens and they are not available for future spending.

**Honeyville City**  
**Management's Discussion and Analysis (Unaudited) (Continued)**  
**For the Year Ended June 30, 2005**

**Honeyville City's Net Assets**

	<u>Governmental</u> <u>Activities</u>		<u>Business-Type</u> <u>Activities</u>		<u>Total</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Other assets	\$663,805	\$730,411	\$ 60,419	\$ 42,442	\$ 724,224	\$ 772,853
Capital assets	<u>332,613</u>	<u>179,772</u>	<u>510,135</u>	<u>545,476</u>	<u>842,748</u>	<u>725,248</u>
Total assets	<u>996,418</u>	<u>910,183</u>	<u>570,554</u>	<u>587,918</u>	<u>1,566,972</u>	<u>1,498,101</u>
Other liabilities	<u>45,949</u>	<u>52,375</u>	<u>1,440</u>	<u>5,504</u>	<u>47,389</u>	<u>57,879</u>
Total liabilities	<u>45,949</u>	<u>52,375</u>	<u>1,440</u>	<u>5,504</u>	<u>47,389</u>	<u>57,879</u>
Net assets						
Investment in capital assets, net of related debt	332,613	179,772	510,135	545,476	842,748	725,248
Restricted	69,785	39,085	-	-	69,785	39,085
Unrestricted	<u>548,071</u>	<u>638,951</u>	<u>58,979</u>	<u>36,938</u>	<u>607,050</u>	<u>675,889</u>
Total net assets	<u>\$ 950,469</u>	<u>\$ 857,808</u>	<u>\$ 569,114</u>	<u>\$ 582,414</u>	<u>\$ 1,519,583</u>	<u>\$ 1,440,222</u>

The restricted portion of the net assets \$69,785 (5 percent) represents resources that are subject to external restrictions on how they may be used. The balance of unrestricted net assets \$607,050 (40 percent) may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City was able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its combined governmental and business-type activities.

*See Independent Auditors' Report*



**Honeyville City**  
**Management's Discussion and Analysis (Unaudited) (Continued)**  
**For the Year Ended June 30, 2005**

**Honeyville City's Change in Net Assets**

	<u>Governmental</u> <u>Activities</u>		<u>Business-Type</u> <u>Activities</u>		<u>Total</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Revenues:						
Program revenues:						
Charges for services	\$ 47,073	\$ 41,202	\$104,374	\$120,115	\$ 151,447	\$ 161,317
Operating grants and contributions	75,511	90,198	39,305	41,624	114,816	131,822
Capital grants and contributins	4,700	9,100	-	-	4,700	9,100
General revenues:						
Property taxes	50,129	52,044	-	-	50,129	52,044
Other taxes	103,859	95,893	-	-	103,859	95,893
Other	13,338	8,322	751	-	14,089	8,322
Total revenues	<u>294,610</u>	<u>296,759</u>	<u>144,430</u>	<u>161,739</u>	<u>439,040</u>	<u>458,498</u>
Expenses:						
General government	89,878	88,114	-	-	89,878	88,114
Public safety	59,763	35,645	-	-	59,763	35,645
Highways and public works	29,880	28,748	-	-	29,880	28,748
Parks and recreation	22,428	22,232	-	-	22,428	22,232
Water utility	-	-	157,730	103,304	-	103,304
Total expenses	<u>201,949</u>	<u>174,739</u>	<u>157,730</u>	<u>103,304</u>	<u>201,949</u>	<u>278,043</u>
Increase (decrease) in net assets	92,661	122,020	(13,300)	58,435	79,361	180,455
Prior period adjustment	-	2,779	-	16,600	-	19,379
Net assets beginning	<u>857,808</u>	<u>733,009</u>	<u>582,414</u>	<u>507,379</u>	<u>1,440,222</u>	<u>1,240,388</u>
Net assets ending	<u>\$ 950,469</u>	<u>\$ 857,808</u>	<u>\$ 569,114</u>	<u>\$ 582,414</u>	<u>\$ 1,519,583</u>	<u>\$ 1,440,222</u>

*See Independent Auditors' Report*

**Honeyville City**  
**Management's Discussion and Analysis (Unaudited) (Continued)**  
**For the Year Ended June 30, 2005**

**Governmental and Business-Type Activities.** Governmental activities increased the City's net assets by \$92,661. When combined with the \$13,300 decrease in net assets from business-type activities, overall net assets increased by \$79,361 or 6 percent.

The increase in governmental net assets is mainly due to capitalizing new fixed asset purchases. The decrease in the business-type activities is due mainly to engineering services provided in connection with a sewer study.

**FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS**

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

**Government Funds.** The purpose of the City's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

**The general fund** is the City's chief operating fund. At the end of the current fiscal year, the unreserved fund balance of the general fund was \$158,669, which comprises 70 percent of the total fund balance. The remaining general fund balance of \$67,216 is restricted for B&C Road uses. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. The unreserved general fund balance represents 79 percent of total general fund expenditures. The fund balance of the City's general fund increased by \$82,439 during the current fiscal year. This increase was anticipated.

**The capital projects fund** decreased mainly because of the purchase of a new fire truck. The water utility fund's net assets decreased by \$13,300. This was due mainly to engineering fees in connection with the performance of a sewer study.

**Honeyville City**  
**Management's Discussion and Analysis (Unaudited) (Continued)**  
**For the Year Ended June 30, 2005**

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The original submitted budget for fiscal year 2005 was modified to reflect increased expenses in two budget categories. The City increased public safety by \$20,000 for Fire Department supply purchases. The City also increased the cemetery budget by \$7,000 for the purchase of new playground equipment.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital assets.** The City's investment in capital assets for its governmental and business-type activities at June 30, 2005, amounted to \$842,748 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, service lines, equipment, roads and similar infrastructure. The total increase in the City's investment in capital assets for the current fiscal year was \$117,500 (an increase of 85 percent for governmental activities and a decrease of 6 percent for business-type activities). The increase in governmental capital assets was due to the purchase of a new fire truck. The decrease in business-type activities is due to annual depreciation.

**Honeyville City's Capital Assets**  
**(Net of Depreciation)**

	<u>Governmental</u> <u>Activities</u>		<u>Business-Type</u> <u>Activities</u>		<u>Total</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Land	\$ 12,900	\$ 12,900	\$ -	\$ -	\$ 12,900	\$ 12,900
Buildings and improvements	113,760	99,770	480,751	505,105	594,511	604,875
Infrastructure	13,284	14,009	-	-	13,284	14,009
Machinery and equipment	<u>192,669</u>	<u>53,093</u>	<u>29,384</u>	<u>40,371</u>	<u>222,053</u>	<u>93,464</u>
Net capital assets	<u>\$ 332,613</u>	<u>\$ 179,772</u>	<u>\$ 510,135</u>	<u>\$ 545,476</u>	<u>\$ 842,748</u>	<u>\$ 725,248</u>

Additional information on the City's capital assets can be found in Note 3 on pages 26 and 27 of this report.

*See Independent Auditors' Report*

**Honeyville City**  
**Management's Discussion and Analysis (Unaudited) (Continued)**  
**For the Year Ended June 30, 2005**

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

Honeyville, Utah, has continued to experience growth and is in the process of negotiations with the State of Utah Division of Wildlife Services to build a new water reservoir. The Division owns a piece of property to be used for wildlife, not commercial, purposes. Through negotiations, it is anticipated the City will be allowed to build a one million gallon reservoir on the Division of Wildlife Resources land in exchange for the City building a watering trough or pond for wildlife. It is anticipated the monthly water rates will be increased in order to assist in servicing the debt that will be incurred in building the water reservoir.

The City has also budgeted to install and eight-inch water line on Call's Fort Road from 6900 North to 7275 North, which is about 4,000 ft. of pipe. This project will also include the installation of fire hydrants.

The City will be conducting a feasibility study about the possibility of acquiring the old Honeyville School building and convert it into a community center.

*See Independent Auditors' Report*

**Honeyville City**  
**Statement of Net Assets**  
**June 30, 2005**

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$588,340	\$ 44,206	\$ 632,546
Accounts receivable - net	-	16,213	16,213
Property taxes receivable	43,502	-	43,502
Sales taxes receivable	18,938	-	18,938
Due from other governmental units	12,575	-	12,575
Capital assets (net of accumulated depreciation):			
Land	12,900	-	12,900
Buildings and improvements	113,760	480,750	594,510
Infrastructure	13,284	-	13,284
Equipment	192,669	29,385	222,054
Other assets	450	-	450
 Total assets	 <u>996,418</u>	 <u>570,554</u>	 <u>1,566,972</u>
<b>LIABILITIES</b>			
Accounts payable and accrued liabilities	3,561	1,440	5,001
Deferred revenue	42,388	-	42,388
 Total liabilities	 <u>45,949</u>	 <u>1,440</u>	 <u>47,389</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	332,613	510,135	842,748
Restricted - Class "C" roads	69,785	-	69,785
Unrestricted	548,071	58,979	607,050
 Total net assets	 <u>\$950,469</u>	 <u>\$569,114</u>	 <u>\$1,519,583</u>

*The accompanying notes are an integral part of these statements.*

# Honeyville City

## Statement of Activities

### For the Year Ended June 30, 2005

Function/Program	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government		
				Governmental Activities	Business-Type Activities	Total
<b>Governmental activities:</b>						
General government	\$ 89,878	\$ 24,926	\$ -	\$ (64,952)	\$ -	\$ (64,952)
Public safety	59,763	18,102	5,000	(36,661)	-	(36,661)
Highways and public works	29,880	-	61,320	31,440	-	31,440
Parks and recreation	22,428	4,045	9,191	(4,492)	-	(4,492)
	201,949	47,073	75,511	(74,665)	-	(74,665)
<b>Business-type activities:</b>						
Water utility	157,730	104,374	39,305	-	(14,051)	(14,051)
	157,730	104,374	39,305	-	(14,051)	(14,051)
<b>Total primary government activities</b>	<b>\$ 359,679</b>	<b>\$ 151,447</b>	<b>\$ 114,816</b>	<b>(74,665)</b>	<b>(14,051)</b>	<b>(88,716)</b>
<b>General revenues:</b>						
<b>Taxes:</b>						
Property taxes				50,129	-	50,129
General sales and use taxes				102,378	-	102,378
Other taxes				1,481	-	1,481
Unrestricted investment earnings				13,338	751	14,089
Total general revenues				167,326	751	168,077
Change in net assets				92,661	(13,300)	79,361
Net assets - beginning				857,808	582,414	1,440,222
Net assets - ending				\$ 950,469	\$ 569,114	\$ 1,519,583

The accompanying notes are an integral part of these statements.

**Honeyville City**  
**Balance Sheet - Governmental Funds**  
**June 30, 2005**

	General Fund	Capital Projects Fund	Total Governmental Funds
<b>ASSETS</b>			
Cash and cash equivalents	\$ 208,158	\$ 380,182	\$ 588,340
Receivables, net			
Property tax	43,502	-	43,502
Sales tax	18,938	-	18,938
Intergovernmental	12,575	-	12,575
Other assets	<u>450</u>	<u>-</u>	<u>450</u>
Total assets	<u>\$ 283,623</u>	<u>\$ 380,182</u>	<u>\$ 663,805</u>
<b>LIABILITIES AND FUND BALANCE</b>			
Liabilities:			
Accounts payable	\$ 3,561	\$ -	\$ 3,561
Deferred revenue	<u>54,177</u>	<u>-</u>	<u>54,177</u>
Total liabilities	<u>57,738</u>	<u>-</u>	<u>57,738</u>
Fund balance:			
Reserved for:			
Class "C" roads	67,216	-	67,216
Unreserved	<u>158,669</u>	<u>380,182</u>	<u>538,851</u>
Total fund balance	<u>225,885</u>	<u>380,182</u>	<u>606,067</u>
Total liabilities and fund balances	<u>\$ 283,623</u>	<u>\$ 380,182</u>	<u>\$ 663,805</u>

*The accompanying notes are an integral part of these statements.*

**Honeyville City**  
**Reconciliation of the Balance Sheet of Governmental Funds**  
**To the Statement of Net Assets**  
**June 30, 2005**

Total fund balance - governmental fund types \$ 606,067

Amounts reported for governmental activities  
in the statement of net assets are different  
because:

Capital assets used in governmental  
activities are not financial resources  
and, therefore, are not reported in the  
funds. 332,613

Revenues not considered available are  
deferred in the funds. These include  
\$11,789 in sales and use tax. 11,789

Net assets of governmental activities \$ 950,469

*The accompanying notes are an integral part of these statements.*



**Honeyville City**  
**Statement of Revenues, Expenditures and Changes in Fund**  
**Balances - Governmental Funds**  
**For the Year Ended June 30, 2005**

	General Fund	Capital Projects Fund	Total Governmental Funds
Revenues:			
Taxes:			
Property	\$ 50,129	\$ -	\$ 50,129
Sales and use	100,986		100,986
Other	1,481		1,481
Licenses and permits	25,656	-	25,656
Intergovernmental	61,320	-	61,320
Charges for services	24,481	-	24,481
Impact fees	6,066	-	6,066
Earnings on investments	3,925	9,413	13,338
Grants received	9,700	-	9,700
Miscellaneous	60	-	60
Total revenues	<u>283,804</u>	<u>9,413</u>	<u>293,217</u>
Expenditures:			
Current:			
General government	82,541	-	82,541
Public safety	57,985	-	57,985
Highways and public works	32,449	-	32,449
Parks and recreation	28,390	-	28,390
Capital outlay	-	153,424	153,424
Total expenditures	<u>201,365</u>	<u>153,424</u>	<u>354,789</u>
Excess (deficiency) of revenues over expenditures	82,439	(144,011)	(61,572)
Fund balance at beginning of year	<u>143,446</u>	<u>524,193</u>	<u>667,639</u>
Fund balance at end of year	<u>\$ 225,885</u>	<u>\$ 380,182</u>	<u>\$ 606,067</u>

*The accompanying notes are an integral part of these statements.*

**Honeyville City**  
**Reconciliation of the Statement of Revenues, Expenditures**  
**and Changes in Fund Balances - Governmental Funds**  
**To the Statement of Activities**  
**For the Year Ended June 30, 2005**

Amounts reported for governmental activities  
in the statement of activities are  
different because:

Net changes in fund balances - total governmental funds	\$ (61,572)
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	152,841
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds	<u>1,392</u>
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Change in net assets of governmental activities	<u>\$ 92,661</u>
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*The accompanying notes are an integral part of these statements.*

**Honeyville City**  
**Statement of Net Assets - Proprietary Fund**  
**June 30, 2005**

	Enterprise Fund <u>Water Utility</u>
ASSETS	
Current assets:	
Cash and investments	\$ 44,206
Receivables, net	<u>16,213</u>
Total current assets	60,419
Noncurrent assets:	
Capital assets:	
Water system, net	480,751
Equipment, net	<u>29,384</u>
Total noncurrent assets	510,135
Total assets	<u>570,554</u>
LIABILITIES	
Current liabilities:	
Accounts payable	<u>1,440</u>
Total liabilities	<u>1,440</u>
NET ASSETS	
Investment in capital assets, net of related debt	510,135
Unrestricted	<u>58,979</u>
Total net assets	<u>\$ 569,114</u>

*The accompanying notes are an integral part of these statements.*

**Honeyville City**  
**Statement of Revenues, Expenses and Changes in**  
**Net Assets - Proprietary Fund**  
**For the Year Ended June 30, 2005**

	<u>Enterprise Fund</u> <u>Water Utility</u>
OPERATING REVENUES	
Charges for services	\$ 104,374
Connection fees	<u>1,465</u>
Total operating revenues	105,839
OPERATING EXPENSES	
Wages and benefits	19,649
Fees and services	41,307
Materials and supplies	51,926
Utilities	9,507
Depreciation	<u>35,341</u>
Total operating expenses	157,730
Operating income (loss)	(51,891)
NONOPERATING REVENUES (EXPENSES)	
Investment earnings	751
Impact fees	<u>37,840</u>
Total nonoperating revenues	<u>38,591</u>
Change in net assets	(13,300)
Total net assets - beginning	<u>582,414</u>
Total net assets - ending	<u><u>\$ 569,114</u></u>

*The accompanying notes are an integral part of these statements.*

**Honeyville City**  
**Statement of Cash Flows - Proprietary Fund**  
**For the Year Ended June 30, 2005**

	<u>Enterprise Fund</u> <u>Water Utility</u>
Cash flows from operating activities:	
Receipts from customers	\$ 112,095
Payments to suppliers	(105,755)
Payments to employees	<u>(20,700)</u>
Net cash provided by (used in) operating activities	<u>(14,360)</u>
Cash flows from capital and related financing activities:	
Capital contributions	<u>37,840</u>
Net cash provided by (used in) capital and related financing activities	<u>37,840</u>
Cash flows from investing activities:	
Interest and dividends received	<u>751</u>
Net cash provided by (used in) investing activities	<u>751</u>
Net increase (decrease) in cash and cash equivalents	24,231
Balance - beginning of year	<u>19,975</u>
Balance - end of year	<u>\$ 44,206</u>

The accompanying notes are an integral part of these statements.

**Honeyville City**  
**Statement of Cash Flows - Proprietary Fund (Continued)**  
**For the Year Ended June 30, 2005**

	<u>Enterprise Fund</u> <u>Water Utility</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:	
Operating income (loss)	\$ (51,891)
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:	
Depreciation expense	35,341
Change in assets and liabilities:	
Receivables, net	6,256
Accounts and other payables	<u>(4,066)</u>
Net cash provided by (used in) operating activities	<u>\$ (14,360)</u>

*The accompanying notes are an integral part of these statements.*

**Honeyville City**  
**Notes to Financial Statements**  
**June 30, 2005**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A. Reporting Entity

The government of Honeyville City is governed by an elected mayor and a five-member council. As required by generally accepted accounting principles, these financial statements present the financial condition of the government. Honeyville City is not a component unit of any other entity, nor does it have any component units for which the government would be considered financially accountable.

B. Government-Wide and Fund Financial Statements

The City's basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type.

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all activities of the City. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function or segment.

Program revenues include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental and proprietary funds. All individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

*See Independent Auditors' Report*

**Honeyville City**  
**Notes to Financial Statements (Continued)**  
**June 30, 2005**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The use of financial resources to acquire capital assets are capitalized as assets in the government-wide financial statement, rather than reported as expenditures.

The accounts of the government are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

The government has the following fund types:

**Governmental funds** are used to account for the government's general government activities. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they are "measurable" and "available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The City considers all revenues available if they are collected within 30 days after year end. The City considers Class "C" road money to be available if collected within 60 days. Expenditures are recorded when the related fund liability is incurred.

*See Independent Auditors' Report*



**Honeyville City**  
**Notes to Financial Statements (Continued)**  
**June 30, 2005**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Governmental funds include the following fund types:

The **general fund** is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The **capital projects funds** account for the acquisition of capital assets or construction of major capital projects not being financed by proprietary funds.

**Proprietary funds** are accounted for on the flow of economic resources measurement focus and use of accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The City applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers to the system.

Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**Enterprise funds** are used to account for those operations financed and operated in a manner similar to private business or where the City has decided the determination of revenues earned, costs incurred and/or net income is necessary for management accountability. The City has only one proprietary fund, the water utility fund, which delivers culinary water to citizens of the City.

*See Independent Auditors' Report*

**Honeyville City**  
**Notes to Financial Statements (Continued)**  
**June 30, 2005**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities and Equity

i. *Cash and Investments*

The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with the original maturities of three months or less from the date of acquisition. Currently, the only investing is done with the State Treasurer's Investment Pool.

ii. *Receivables and Payables*

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds" if they are not projected to be repaid within one year, and as "interfund receivable/payable" for amounts projected to be repaid within one year.

iii. *Capital Assets*

Capital assets used in governmental-fund type operations are accounted for in the governmental activities column in the statement of net assets, but not in governmental funds. Governmental capital assets consisting of certain improvements other than buildings, including roads, bridges, streets, drainage systems and lighting system placed in service prior to June 30, 2003, have not been capitalized.

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated.

*See Independent Auditors' Report*

**Honeyville City**  
**Notes to Financial Statements (Continued)**  
**June 30, 2005**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

D. Assets, Liabilities and Equity (Continued)

Depreciation of all exhaustible capital assets is charged as an expense against its operations in the government-wide financial statements and the proprietary fund financial statements. Accumulated depreciation is reported on the government-wide and proprietary fund statements of net assets. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Buildings and improvements..	20 - 40 years
Water system.....	40 years
Equipment.....	3 - 15 years
Infrastructure.....	20 years

E. Budget and Budgetary Accounting

The City follows the budget and budgetary accounting procedures established by Utah law and described in the Uniform Accounting Manual for Utah Cities and Towns. The current year budget was amended according to Utah law.

**NOTE 2. CASH AND INVESTMENTS**

At year end, the government's carrying amount of deposits was \$30,071 and the bank balance was \$44,595. Of the bank balance, the full amount was covered by federal depository insurance.

Statutes authorize Honeyville, Utah, to invest in obligations of the U.S. Treasury and U.S. agencies, bankers' acceptances, repurchase agreements, commercial paper rated A-1 by Standard and Poor's Corporation or P-1 by Moody's Commercial Paper Records and the State Treasurer's Investment Pool. Investments in the State Treasurer's Investment Pool are unrated for credit risk purposes.

*See Independent Auditors' Report*

**Honeyville City**  
**Notes to Financial Statements (Continued)**  
**June 30, 2005**

**NOTE 2. CASH AND INVESTMENTS (Continued)**

Honeyville City's investments at June 30, 2005, are shown below.

	<u>Carrying Amount</u>	<u>Market Value</u>
State Treasurer's Investment Pool (Uninsured and unregistered)	\$ <u>602,475</u>	\$ <u>602,568</u>

**NOTE 3. CAPITAL ASSETS**

The following is a summary of changes in capital assets during the fiscal year:

**Governmental Activities:**

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 12,900	\$ -	\$ -	\$ 12,900
Capital assets being depreciated:				
Infrastructure	14,492	-	-	14,492
Buildings and improvements	153,600	3,588	-	157,188
Machinery and equipment	<u>143,867</u>	<u>171,716</u>	<u>-</u>	<u>315,583</u>
Total at historical cost	<u>324,859</u>	<u>175,304</u>	<u>-</u>	<u>500,163</u>
Less accumulated depreciation for:				
Infrastructure	483	725	-	1,208
Buildings and improvements	53,830	7,436	-	61,266
Machinery and equipment	<u>90,774</u>	<u>14,302</u>	<u>-</u>	<u>105,076</u>
Total accumulated depreciation	<u>145,087</u>	<u>22,463</u>	<u>-</u>	<u>167,550</u>
Governmental activities capital assets - net	\$ <u>179,772</u>	\$ <u>152,841</u>	\$ <u>-</u>	\$ <u>332,613</u>

*See Independent Auditors' Report*

**Honeyville City**  
**Notes to Financial Statements (Continued)**  
**June 30, 2005**

**NOTE 3. CAPITAL ASSETS (Continued)**

**Business-Type Activities:**

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets being depreciated:				
Water system	\$1,712,358	\$ -	\$ -	\$1,712,358
Machinery and equipment	<u>91,471</u>	<u>-</u>	<u>-</u>	<u>91,471</u>
Total at historical cost	<u>1,803,829</u>	<u>-</u>	<u>-</u>	<u>1,803,829</u>
Less accumulated depreciation for:				
Water system	1,207,253	24,354		1,231,607
Machinery and equipment	<u>51,100</u>	<u>10,987</u>	<u>-</u>	<u>62,087</u>
Total accumulated depreciation	<u>1,258,353</u>	<u>35,341</u>	<u>-</u>	<u>1,293,694</u>
Business type activities capital assets - net	<u>\$ 545,476</u>	<u>\$ (35,341)</u>	<u>\$ -</u>	<u>\$ 510,135</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

**Governmental Activities:**

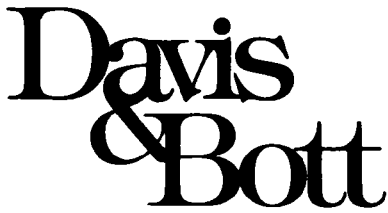
General government	\$ 7,335
Public safety	10,490
Highways and public improvements	2,031
Parks and recreation	<u>2,607</u>
Total depreciation expense governmental activities	<u>\$ 22,463</u>

**Required Supplementary Information**

**Honeyville City**  
**Statement of Revenues, Expenditures and**  
**Changes in Fund Balance**  
**Budget and Actual - General Fund**  
**For the Year Ended June 30, 2005**

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:				
Taxes	\$129,500	\$129,500	\$152,596	23,096
Licenses and permits	30,900	30,900	25,656	(5,244)
Intergovernmental	72,500	72,500	61,320	(11,180)
Charges for services	12,520	12,520	24,481	11,961
Impact fees	12,555	12,555	6,066	(6,489)
Earnings on investments	6,000	6,000	3,925	(2,075)
Grants received	4,700	4,700	9,700	5,000
Miscellaneous	-	-	60	60
Total revenues	268,675	268,675	283,804	15,129
Expenditures:				
General government	97,920	97,920	82,541	15,379
Public safety	40,700	60,700	57,985	2,715
Highways and public improvements	82,908	82,908	32,449	50,459
Parks and recreation	47,147	52,147	28,390	23,757
Total expenditures	268,675	293,675	201,365	92,310
Excess (deficiency) of revenues over expenditures	-	(25,000)	82,439	107,439
Other financing sources (uses):				
Appropriated decrease (increase) in fund balance		25,000		(25,000)
Fund balance at beginning of year	143,446	143,446	143,446	-
Fund balance at end of year	<u>\$143,446</u>	<u>\$143,446</u>	<u>\$225,885</u>	<u>\$ 82,439</u>

*See Independent Auditors' Report*



Certified Public Accountants, L.C.

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216 East Main  
Tremonton, Utah 84337  
435-257-5486

**REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH  
GOVERNMENTAL AUDITING STANDARDS**

The Honorable Mayor and City Council  
Honeyville City  
Honeyville, UT 84314

We have audited the financial statements of the governmental activities, the business-type activities and each major fund of Honeyville, Utah, as of and for the year ended June 30, 2005, which collectively comprise Honeyville, Utah's, basic financial statements and have issued our report thereon dated October 13, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Honeyville, Utah's, internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.



**Honeyville City**  
**Report on Internal Control Over Financial Reporting**  
**and on Compliance and Other Matters Based on an Audit**  
**of Financial Statements Performed In Accordance With**  
**Governmental Auditing Standards**

**Page Two**

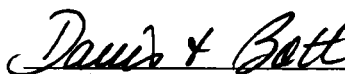
However, we noted other matters involving the internal control over financial reporting that we have reported to management of Honeyville, Utah, in a separate letter dated October 13, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Honeyville, Utah's, financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Audit Standards*.

However, we noted certain immaterial instances of noncompliance or other matters that we have reported to the management of Honeyville, Utah, in a separate letter dated October 13, 2005.

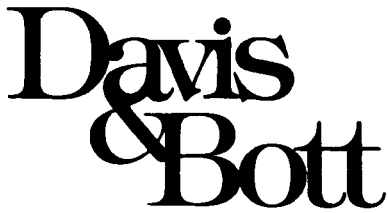
This report is intended solely for the information and use of management, the City Council, and the various state funding and auditing agencies and is not intended to be, and should not be, used by anyone other than these specified parties.



Davis & Bott

Certified Public Accountants, L.C.

Brigham City, Utah  
October 13, 2005



Certified Public Accountants, L.C.

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Tremonton, Utah 84337  
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## AUDITORS' REPORT ON STATE OF UTAH LEGAL COMPLIANCE

The Honorable Mayor and City Council  
Honeyville City  
Honeyville, UT 84314

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of Honeyville, Utah, for the year ended June 30, 2005, and have issued our report thereon dated October 13, 2005. As part of our audit, we have audited the City of Honeyville's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah Legal Compliance Audit Guide for the year ended June 30, 2005. The City received the following major assistance programs from the State of Utah:

- \* B & C road funds (Utah Department of Transportation)
- \* Liquor law enforcement (State Tax Commission)

The City also received the following nonmajor grants, which were not required to be audited for specific compliance requirements: (However, these programs were subject to testwork as part of the audit of the City's financial statements.)

- \* Fire Department Grant (Department of Natural Resources)
- \* Cemetery History Grant (Division of State History)

Our audit also included testwork on the City's compliance with the following general compliance requirements identified in the State of Utah Legal Compliance Audit Guide:

- \* Public debt
- \* Cash management
- \* Purchasing requirements
- \* Budgetary compliance
- \* Truth in Taxation & Property Tax Limitations

Honeyville City  
Auditors' Report on State of Utah  
Legal Compliance  
Page Two

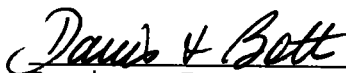
- \* Liquor law enforcement
- \* B & C road funds
- \* Other general compliance issues
- \* Uniform building code standards
- \* Impact fees and other development fees

The management of Honeyville, Utah, is responsible for the City's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying letter of recommendations. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, Honeyville, Utah, complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State assistance programs for the year ended June 30, 2005.



Davis & Bott

Certified Public Accountants, L.C.

Brigham City, Utah  
October 13, 2005

**CURRENT YEAR RECOMMENDATION:**

**1. EXCESSIVE FUND BALANCE**

Issue - For the year ended June 30, 2005, the general fund has a fund balance in excess of the amount allowed by state law.

Recommendation - We recommend the City review the limits for fund balances (i.e., not in excess of 18 percent of total estimated revenue) and make necessary adjustments to comply with the requirements.

Response - The City has future projects they anticipate will use the excess fund balance.

**PRIOR YEAR RECOMMENDATIONS:**

**1. SEGREGATION OF DUTIES**

Issue - Honeyville, Utah, has insufficient segregation of duties due to the small size of the entity.

Recommendation - We recommend the City look at the cost versus the benefit of improving the segregation of duties.

Response - Honeyville, Utah, has a city clerk and a treasurer. They try to segregate duties as much as possible between the two employees. The City feels the additional cost involved to completely segregate duties is not feasible for the benefit they would receive. They feel their current procedures are adequate to safeguard assets.

Current Status - Segregation of duties remains insufficient due to the size of the City.

**2. TIMELY DEPOSITS**

Issue - The City is not following the cash management procedures of making deposits at least every three days.

Recommendation - We recommend the City deposit within the three-day period.

Response - The City will implement this recommendation.

Current Status - The recommendation has not been implemented.

**3. BONDING**

Issue - The City treasurer is not adequately bonded in accordance with State of Utah law.

Recommendation - We recommend the City take the necessary steps to increase bonding of the treasurer.

Response - The City will increase the amount of the treasurer's bond.

Current Status - The City is in the process of implementing this recommendation.

**4. BUDGETING**

Issue - Two departments in the general fund had expenditures in excess of budget.

Recommendation - We recommend the expenditures be monitored more closely and that proper budgeting procedures for all transactions be followed.

Response - The City will implement this recommendation in the future.

Current Status - This recommendation has been implemented.

**5. SEPARATE ACCOUNTING**

Issue - The City's Fire Department maintains a separate banking account independent of the City.

Recommendation - We recommend the City process all transactions of the Fire Department and the separate account be closed.

Response - The City will implement this recommendation.

Current Status - This recommendation has been implemented.